Transcript of Floor Statement of
Senate Budget Committee Chairman Kent Conrad
January 25, 2002

MR. CONRAD: Mr. President, I think to understand and evaluate this amendment, the first thing we have to do is understand our current economic condition.

The day before yesterday, the director of the Congressional Budget Office, Director Crippen, informed us that the projection of $5.6 trillion of surpluses over the next ten years, that was made just one year ago, has now been eroded dramatically. And that what is available to us over the next ten-year period is not $5.6 trillion, but $1.6 trillion trillion – the loss of $4 trillion of projected surpluses in just one year.

Mr. President, if we look to the causes for that dramatic change in our fiscal condition, what we see, according to the Congressional Budget Office, is that tax cuts accounted for 42% of the reduction in projected surplus, 23% as a result of economic changes from the economic slowdown, 18% are from other legislation, mostly as a result of the attack on this country of September 11 of last year, and 17% are the result of certain technical changes. Examples of that are increased cost of Medicare and Medicaid.

Mr. President, I think it's critically important as we evaluate these amendments to understand our current fiscal condition. The implications of this dramatic drop in the projected surpluses is that we have gone from a circumstance in which we were told last year that we would be virtually debt-free as a nation in the year 2008. Now Director Crippen tells us, instead of being debt-free in 2008, we will have $2.8 trillion of publicly held debt.

And as Chairman Greenspan reported to the Budget Committee yesterday, that's really the tip of the iceberg, because we have other liabilities, so-called contingent liabilities, of another $10 trillion. Mr. President, I think this should sober us in our deliberations here today. The implications of all this are serious and far-ranging. It means that the total federal interest cost that we can anticipate are going up by over $1 trillion. We were told last year we would expect interest costs to the federal government of $622 billion over this forecast period. That has now been ranged -- increased to $1.6 trillion, an increase of over $1 trillion.

Mr. President, perhaps most alarming is that through this there are no surpluses left, no surpluses. The only place there is surplus money is in the Social Security Trust Fund account. If we remove the Social Security Trust Fund and the Medicare Trust Fund, what we find -- last year we were told we would have $2.7 trillion in non-trust fund surpluses -- now, what we see is a $1.1 trillion deficit. Mr. President, what this means is that any proposal before us will take the payroll taxes of our firemen, our policemen, our farmers, our carpenters, our teachers, those who work in our factories, even our own employees, and we will be taking every penny to pay for any of these provisions – however meritorious – right out of the payroll taxes of the taxpayers of America, taxes they were told were being levied to pay for Social Security and Medicare and are now being taken, not to pay for Social Security and Medicare – oh, no – but now to pay for any tax relief provision that is being considered on the floor. Mr. President, I believe that sets a very high bar with respect to any of these proposals.

Now comes this amendment, well-intended. I have high regard for the Senator offering this amendment. He is a respected member of the Budget Committee. I support bonus depreciation as part of a stimulus package. But, Mr. President, bonus depreciation over three years defeats the purpose of a stimulus package. Stimulus packages, as Secretary Rubin described it to us, as Chairman Greenspan described it to us, are designed to change economic behavior now, not three years from now, but now. And if instead of doing one-year depreciation you do three years' depreciation, what you've actually done is to encourage people to wait to make the investment, to wait. That is precisely what we should not do. What we need to do is to encourage people to invest now.

MR. SARBANES: Will the Senator yield on that point?

MR. CONRAD: I would be happy to yield.

MR. SARBANES: Isn't it in fact correct that this proposal, the three-year bonus depreciation, is contradictory within its own terms? I mean, what you want to do with the stimulus -- and I'm for a one-year bonus depreciation, because I think that may serve as an incentive for additional investment in order to realize the benefit of the bonus depreciation in the first year. If you make it a three-year bonus depreciation, the latter part of the bonus depreciation is countering the front part of the bonus depreciation, which is exactly what you don't want. We want to do the one-year. We'll see what the one-year gives us, where the economy is at the end of the one-year, and whether an additional effort is needed. But to do three years, so someone can say well, I won't do it this year. I won't do it next year. I'll do it in the third year of the bonus depreciation, is exactly contrary to what we're trying to accomplish. Isn't that in fact the case?

MR. CONRAD: Well, it is precisely the case. And again I would say, I am a supporter as well of bonus depreciation. I agree with everything the Senator from Oregon said with respect to the merits of bonus depreciation. But I have to say to my colleague, I think it would be a profound mistake to do two or three years because that simply encourages people to wait rather than creating an incentive to act now, to invest now, to give lift to the economy now. The message that's being sent is wait. That is not the message we ought to send.

And let me just say, if I can, that that's not just the conclusion of this Senator or the conclusion of the Senator from Maryland, but the Congressional Budget Office, who at my request did an analysis of the various stimulus proposals, concluded on this whole question that a longer period would give a bigger average yearly boost, but more of it would come at the end of the period than at the beginning, delaying the stimulative effect, delaying the stimulative effect. Is that what we want to do here, delay the stimulative effect? I don't think so. That goes directly counter -- directly contrary -- to what a stimulus package is supposed to do.

MR. SARBANES: Would the Senator yield on that point?

MR.CONRAD: I would be happy to.

MR. SARBANES: In fact, as I understand it, the Congressional Budget Office in a report evaluating the various stimulus options said -- and I quote them now -- this is a quote from the Congressional Budget Office -- "extending the period during which such expensing could be used would reduce -- reduce – the bang for the buck because it would decrease businesses' incentive to invest in the first year and increase the total revenue costs." So we would lose on the stimulus front and we would add to the deficit problem which the Senator has so ably outlined that we confront as we look out into the future.

MR. CONRAD: It is actually the results of passing the Smith amendment would have the perverse result of decreasing the impact of the stimulus and increasing the debt, increasing the deficits, which was kind of the worst stew that you could cook.

Mr. President, let me just also point out that as we started this whole question of stimulus, the budgeteers on the House side and the Senate side on a bipartisan basis agreed to a set of principles to apply. One of them was a stimulus sunset. That principle said, and I quote, "all economic stimulus proposals should sunset within one year to the extent practicable." Mr. President, this amendment, as well-intended as it is, violates that basic principle.

Yesterday we heard from Chairman Greenspan. The headline in the “Washington Post" today is that Greenspan doubts the need for additional tax cuts.

While we may agree or disagree on that question, I frankly think additional stimulus would be a good insurance policy. But I think it should be with respect to this provision one year. I think that gives you the greatest stimulus and does the least damage to our long-term deficit situation. Chairman Greenspan yesterday in his testimony said, and I quote, he said he’s “very conflicted about a stimulus package." He said "since the nature of the coming recovery remains uncertain and may be relatively weak, having some additional stimulus could be helpful." I agree with him on that. "On the other hand," he said, "such a package would deepen the budget deficit this year, which would not be a good idea idea." Greenspan went on, "There is a possibility depending on the provisions of a stimulus plan that it could have a modest negative effect on the long-term economic outlook."

Mr. President, I think it's very clear, the best advice we have gotten is that we should have stimulus, that we should have it limited to one year so we don't dig the hole deeper in the out- years in light of the dramatic change in our fiscal condition. And let me just conclude by showing what the amendment of the Senator would do. The revenue lost this year is $39 billion, but that pales in comparison to the loss from 2002 to 2006 of $82 billion.